



**LOCAL INITIATIVES SUPPORT CORPORATION**  
**(Parent Only)**

**Financial Statements and Supplementary Information on  
Federal Awards Programs**

**December 31, 2010**

**(With Independent Auditors' Report  
and Reports on Internal Control and Compliance Thereon)**

*Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.*

Release Date **OCT 03 2012**

**LOCAL INITIATIVES SUPPORT CORPORATION**  
**(Parent Only)**

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KPMG LLP  
345 Park Avenue  
New York, NY 10154

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## **Independent Auditor's Report**

The Board of Directors  
Local Initiatives Support Corporation

We have audited the accompanying statement of financial position of Local Initiatives Support Corporation (Parent Only) (the Organization) as of December 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2009 financial statements and, in our report dated September 30, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1 to the financial statements, the accompanying financial statements were prepared for the purpose of reporting under the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Under the date of September 30, 2011, we have reported on the consolidated financial statements of Local Initiatives Support Corporation and affiliates as of and for the year ended December 31, 2010, and rendered our opinion thereon qualified for the lack of disclosure of summary financial information relating to certain affiliates' investments accounted for on the equity basis which, in our opinion, is required under generally accepted accounting standards.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Local Initiatives Support Corporation (Parent Only) as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011 on our consideration of the Organization's internal control over financial reporting and on our tests of



its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Organization taken as a whole. The accompanying schedule of expenditures of federal awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the schedule of indirect cost rate for the year ended December 31, 2010 are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

September 30, 2011

**LOCAL INITIATIVES SUPPORT CORPORATION**  
(Parent Only)

Statement of Financial Position

December 31, 2010

(with summarized comparative financial information  
as of December 31, 2009)

Assets	Operating funds		Unrestricted permanent loan fund	2010 total	2009 total
	Unrestricted	Temporarily restricted			
Cash and cash equivalents (note 3)	\$ 18,993,361	527,719	254,009	19,775,089	18,418,490
Investments (note 3)	27,511,744	64,030,822	42,123,566	133,666,132	136,066,206
Due from investment manager	—	—	—	—	926,913
Accrued interest receivable	3,000,927	—	—	3,000,927	3,326,543
Contributions receivable, net (note 4)	25,270	36,016,128	—	36,041,398	47,277,477
Government contracts receivable (note 5)	558,197	16,156,181	—	16,714,378	15,357,347
Other assets	2,839,201	2,100,708	—	4,939,909	3,468,824
Due from affiliates (note 15)	5,384,654	—	—	5,384,654	4,563,324
Loans to Community Development Corporations (CDCs)-sponsored projects and National Equity Fund Partnerships for CDCs (notes 6, 9, and 15)	—	—	154,009,593	154,009,593	201,911,409
Allowance for uncollectible loans (note 6)	—	—	(12,776,123)	(12,776,123)	(14,275,751)
Total loans, net	—	—	141,233,470	141,233,470	187,635,658
Recoverable grants to CDCs-sponsored projects, net (notes 6 and 15)	—	8,100,600	—	8,100,600	8,507,380
Prepaid expenses and deposits	566,328	—	—	566,328	1,281,251
Furniture, equipment, and leasehold improvements, net (note 8)	2,568,334	—	—	2,568,334	2,854,598
Total assets	\$ 61,448,016	126,932,158	183,611,045	371,991,219	429,684,011
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
Accounts payable and accrued expenses (note 14)	\$ 11,946,420	500,573	—	12,446,993	14,239,628
Grants payable (note 7)	—	23,266,398	—	23,266,398	20,434,299
Loans payable (note 9)	—	—	196,387,168	196,387,168	242,896,834
Bonds payable (note 10)	—	—	—	—	5,479,722
Total liabilities	11,946,420	23,766,971	196,387,168	232,100,559	283,050,483
Commitments and contingencies (notes 12 and 14)	—	—	—	—	—
Net assets (deficit) (note 2)	49,501,596	103,165,187	(12,776,123)	139,890,660	146,633,528
Total liabilities and net assets	\$ 61,448,016	126,932,158	183,611,045	371,991,219	429,684,011

See accompanying notes to special purpose financial statements

**LOCAL INITIATIVES SUPPORT CORPORATION**  
(Parent Only)

Statement of Activities

Year ended December 31, 2010  
(with summarized comparative financial information for  
the year ended December 31, 2009)

	<b>Operating funds</b>		<b>Unrestricted permanent loan fund</b>	<b>2010 total</b>	<b>2009 total</b>
	<b>Unrestricted</b>	<b>Temporarily restricted</b>			
<b>Support and revenues</b>					
Contributions (note 15)	\$ 7,739,376	44,437,480	—	52,176,856	57,825,062
Government grants and contracts (note 5)	2,085,565	23,868,144	—	25,953,709	32,570,947
Interest income on investments	1,780,496	—	—	1,780,496	2,060,365
Interest income on loans to CDCs (notes 6 and 15)	9,596,943	—	—	9,596,943	12,787,546
Fee income from affiliates (note 15)	2,598,645	—	—	2,598,645	2,653,480
Other income	3,413,758	—	—	3,413,758	3,192,696
Net assets released from restrictions	84,714,291	(84,714,291)	—	—	—
<b>Total support and revenues</b>	<b>111,929,074</b>	<b>(16,408,667)</b>	<b>—</b>	<b>95,520,407</b>	<b>111,090,096</b>
<b>Expenses</b>					
<b>Program services</b>					
Project development and other program activities	38,431,863	—	—	38,431,863	35,374,345
Project grants (note 7)	39,857,999	—	—	39,857,999	36,637,310
Project loans					
Interest on loans and bonds payable	6,925,543	—	—	6,925,543	8,994,861
Increase (decrease) in allowance for uncollectible loans to CDCs (note 6)	2,523,059	—	(1,499,628)	1,023,431	6,094,750
Provision for uncollectible recoverable grants to CDCs	914,428	—	—	914,428	1,477,262
<b>Total program services</b>	<b>88,652,892</b>	<b>—</b>	<b>(1,499,628)</b>	<b>87,153,264</b>	<b>88,578,528</b>
<b>Supporting services</b>					
Management and general	12,702,828	—	—	12,702,828	12,016,533
Fund-raising	6,294,554	—	—	6,294,554	6,096,619
<b>Total supporting services</b>	<b>18,997,382</b>	<b>—</b>	<b>—</b>	<b>18,997,382</b>	<b>18,113,152</b>
<b>Total expenses</b>	<b>107,650,274</b>	<b>—</b>	<b>(1,499,628)</b>	<b>106,150,646</b>	<b>106,691,680</b>
Changes in net assets before realized and unrealized gain on investments	4,278,800	(16,408,667)	1,499,628	(10,630,239)	4,398,416
<b>Realized and unrealized gain on investments</b>	<b>3,887,371</b>	<b>—</b>	<b>—</b>	<b>3,887,371</b>	<b>5,899,762</b>
<b>Change in net assets</b>	<b>8,166,171</b>	<b>(16,408,667)</b>	<b>1,499,628</b>	<b>(6,742,868)</b>	<b>10,298,178</b>
<b>Net assets (deficit), beginning of year</b>	<b>41,335,425</b>	<b>119,573,854</b>	<b>(14,275,751)</b>	<b>146,633,528</b>	<b>136,335,350</b>
<b>Net assets (deficit), end of year</b>	<b>\$ 49,501,596</b>	<b>103,165,187</b>	<b>(12,776,123)</b>	<b>139,890,660</b>	<b>146,633,528</b>

See accompanying notes to special purpose financial statements

**LOCAL INITIATIVES SUPPORT CORPORATION**  
(Parent Only)

Statement of Cash Flows

Year ended December 31, 2010  
(with comparative financial information for  
the year ended December 31, 2009)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Change in net assets	\$ (6,742,868)	10,298,178
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Realized and unrealized gain on investments	(3,887,371)	(5,899,762)
Depreciation and amortization	424,454	494,600
Increase in allowance for uncollectible loans to CDCs	1,023,431	6,094,750
Provision for uncollectible recoverable grants to CDCs	914,428	1,477,262
Change in operating assets and liabilities		
Accrued interest receivable	325,616	(114,586)
Contributions receivable	11,236,079	13,615,233
Government contracts receivable	(1,357,031)	(5,137,123)
Other assets	(103,796)	(1,524,528)
Due from affiliates	1,341,475	192,666
Prepaid expenses and deposits	714,923	(770,624)
Accounts payable and accrued expenses	(1,792,635)	45,646
Grants payable	2,832,099	(3,003,440)
Net cash provided by operating activities	<u>4,928,804</u>	<u>15,768,272</u>
Cash flows from investing activities		
Purchase of investments	(63,736,072)	(71,046,238)
Proceeds from sale and maturities of investments	70,023,517	66,955,668
Decrease (increase) in due from investment manager	926,913	(926,913)
Purchase of fixed assets	(138,190)	(76,338)
Recoverable grants to CDCs-sponsored projects	(2,949,768)	(3,786,063)
Repayments received on recoverable grants to CDCs-sponsored projects	2,442,120	2,535,553
Loans to CDCs-sponsored projects and National Equity Fund Partnerships for CDCs	(34,049,221)	(66,323,714)
Repayments received on loans to CDCs-sponsored projects and National Equity Fund Partnerships for CDCs	<u>75,897,884</u>	<u>83,161,889</u>
Net cash provided by investing activities	<u>48,417,183</u>	<u>10,493,844</u>
Cash flows from financing activities		
Proceeds from loans payable	20,631,333	39,132,477
Repayments of loans and bonds payable	<u>(72,620,721)</u>	<u>(53,889,737)</u>
Net cash used in financing activities	<u>(51,989,388)</u>	<u>(14,757,260)</u>
Net increase in cash and cash equivalents	1,356,599	11,504,856
Cash and cash equivalents, beginning of year	<u>18,418,490</u>	<u>6,913,634</u>
Cash and cash equivalents, end of year	<u>\$ 19,775,089</u>	<u>18,418,490</u>
Cash paid during the year for		
Interest on indebtedness	\$ 8,019,242	9,655,905
Supplemental disclosure on non-cash investing activities		
Foreclosed properties in lieu of loan repayments		
Transferred to affiliate	\$ 2,162,805	2,405,569
Other assets	1,367,289	—

See accompanying notes to special purpose financial statements

**LOCAL INITIATIVES SUPPORT CORPORATION**  
(Parent Only)

Notes to Financial Statements

December 31, 2010  
(with comparative financial information  
as of and for the year ended December 31, 2009)

**(1) Organization and Summary of Significant Accounting Policies**

**(a) Corporate Purposes**

Local Initiatives Support Corporation (LISC or the Organization), a New York not-for-profit corporation, was incorporated in 1979 to assist Community Development Corporations (CDCs) throughout the United States in their efforts to transform distressed neighborhoods into healthy communities by marshaling private and public sector resources, extending financial assistance in the form of loans, lines of credit, grants and loan guarantees, and providing technical support

**(b) Basis of Accounting**

The accompanying financial statements include the assets, liabilities, net assets, and financial activities of LISC only and were prepared for the purpose of reporting under the requirements of U S Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. The financial statements do not include the assets, liabilities, net assets, and financial activities of its controlled affiliates, National Equity Fund, Inc (NEF), Local Initiatives Managed Assets Corporation (LIMAC), The Retail Initiative, Inc (TRI), New Markets Support Company, LLC (NMSC), Columbia Pointe, LLC, LISC Louisiana Loan Fund, LLC (LLLF), Community Development Restructuring, LLC (CDR), Neighborhood Properties, LLC, or Cook County, LLC

**(c) Tax Status**

LISC is exempt from federal income taxes under Section 501(c)(3) of the U S Internal Revenue Code (the Code). LISC has been classified as an organization that is not a private foundation and has been designated a "publicly supported" organization of the type described in Sections 170(b)(1)(A)(VI) and 509(a)(1) of the Code.

The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Income generated from activities unrelated to the Organization's exempt purpose is subject to tax under Internal Revenue Code Section 511. The Organization did not recognize any unrelated business income tax liability for the years ended December 31, 2010 and 2009.

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**LOCAL INITIATIVES SUPPORT CORPORATION**  
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Notes to Financial Statements

December 31, 2010  
(with comparative financial information  
as of and for the year ended December 31, 2009)

**(d) Financial Statement Presentation**

The accompanying financial statements are prepared on the accrual basis of accounting. The Organization reports its financial information in the following categories:

**Operating Funds**

The unrestricted operating fund is used to record activities supported by resources that have been received without restriction over which management and the board of directors have discretionary control.

The temporarily restricted operating fund is used to record assets received with donor-imposed temporary restrictions. Contributions are recorded as temporarily restricted support if they are received with donor stipulations that limit their use. When a donor's restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Permanent Loan Fund**

The permanent loan fund is an unrestricted fund used to record loans and bonds payable proceeds provided to the Organization by financial institutions, insurance companies, foundations, and other nonprofits with lender-imposed restrictions that may include making loans to CDCs in certain geographic areas. Principal repayments received on loans provided to CDCs funded from loan funds, as well as the provision for loan losses are recorded in the loan fund. Impairment losses are charged to the unrestricted operating fund.

**(e) Furniture, Equipment, and Leasehold Improvements**

Furniture, equipment, and leasehold improvements are stated at cost less accumulated depreciation or amortization, computed using the straight-line method. Furniture and equipment are depreciated over their estimated useful lives of three to five years. Leasehold improvements are amortized over the lease term or the life of the asset, whichever is shorter.

**(f) Cash and Cash Equivalents**

Cash and cash equivalents include cash in banks and on hand and highly liquid debt instruments that have maturities of three months or less from the date of purchase by the Organization, except for those amounts held by the Organization's investment managers.

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**LOCAL INITIATIVES SUPPORT CORPORATION**  
(Parent Only)

Notes to Financial Statements

December 31, 2010  
(with comparative financial information  
as of and for the year ended December 31, 2009)

**(g) Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the statement of financial position. Fair value of such equity securities is based on quoted market prices. Fair values of fixed maturity securities are based on prices provided by the Organization's custodian bank. The custodian bank uses a variety of pricing sources to determine market valuations. Each designates specific pricing services or indexes for each sector of the market upon the provider's expertise. The fair values of alternative investments, as a practical expedient, are based on the net asset value provided by the investment managers or general partners. Those estimated net asset values may differ significantly from the values that would have been used had a ready market for these securities existed.

**(h) Contributions**

Contributions, including unconditional promises to give (pledges), are reported as revenue at the date the contribution is received or pledged. Contributions with purpose or time restrictions are reported as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions receivable, less an allowance for uncollectible amounts, are reported at their net present value. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

Contributed goods are recognized as revenue at their estimated fair value at date of receipt and expensed when used. Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require a specialized skill, are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Contributed services that do not meet the above criteria are not recognized as revenues and are not reported in the accompanying financial statements.

**(i) Risks and Uncertainties**

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

(Continued)

**LOCAL INITIATIVES SUPPORT CORPORATION**  
(Parent Only)

Notes to Financial Statements

December 31, 2010  
(with comparative financial information  
as of and for the year ended December 31, 2009)

**(i) Fair Value**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs are unobservable inputs for the asset or liability

In 2010, the Organization adopted Accounting Standards Update (ASU) No. 2010-06, *Improving Disclosures About Fair Value Measurements*. The ASU amends Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value.

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the Organization's interest therein, its classification in Level 2 or 3 is based on the Organization's ability to redeem its interest at or near December 31. If the interest can be redeemed in the near term, the investment is classified as Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

(Continued)

**LOCAL INITIATIVES SUPPORT CORPORATION**  
(Parent Only)

Notes to Financial Statements

December 31, 2010  
(with comparative financial information  
as of and for the year ended December 31, 2009)

**(k) Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant estimates made in the preparation of these financial statements include the fair value of alternative investments, the fair value of derivatives, the allowance for uncollectible loans, the allowance for uncollectible recoverable grants, the allowance for uncollectible contributions receivable, and the valuation of guarantees. Actual results could differ from those estimates.

**(l) Allowance for Uncollectible Loans**

The allowance for uncollectible loans is maintained at a level that, in management's judgment, is adequate to provide for potential losses. The amount of the allowance is based on management's evaluation of the collectibility of the loans. Loans are evaluated individually for impairment and an allowance for impairment is established using the methodology under ASC 310, *Accounting by Creditors for Impairment of a Loan*. An allowance is established when the discounted cash flows of an impaired loan are lower than the carrying value of the loan. For the remainder of the portfolio, an allowance is established based on historical loan loss experience and management's evaluation of the collectibility of the loans, taking into consideration project characteristics and trends.

**(m) Recoverable Grants**

Recoverable grants are amounts provided to CDCs that contractually require repayment without interest. Recoverable grants receivable are recorded when these amounts are disbursed and an allowance has been established based on historical recoverability experience that, in management's judgment, is adequate to cover potential losses.

**(n) Comparative Financial Information**

The accompanying statement of activities is presented with prior year summarized financial information in total, but not by net asset class. Such information does not include sufficient detail to constitute a complete presentation, accordingly, such information should be read in conjunction with the Organization's December 31, 2009 financial statements, from which the summarized information was derived.

**(o) Reclassifications**

Certain reclassifications have been made to the 2009 comparative information to conform to the current year presentation.

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# **LOCAL INITIATIVES SUPPORT CORPORATION**

(Parent Only)

Notes to Financial Statements

December 31, 2010

(with comparative financial information  
as of and for the year ended December 31, 2009)

## **(2) Temporarily Restricted Net Assets**

Temporarily restricted net assets, which are restricted for the Organization's twenty-eight local/regional offices, rural program, Gulf region program, and several other national programs, are to be used in future years for program services such as project grants and recoverable grants to CDCs, sustainable communities program, and operating support to CDCs and local offices. As of December 31, 2010, temporarily restricted net assets were \$103,165,187 and included the following components: (1) *Sustainable Communities Strategy* – approximately \$20 million of donor-restricted funds specifically available for the implementation of LISC's building sustainable communities strategy (of which \$8 million is specifically allocated to the Chicago local area program). The sustainable communities strategy includes five program objectives: developing, preserving, and investing in the physical environment, increasing family income and wealth, stimulating economic activity, locally and regionally, improving access to quality education, and fostering livable, safe, and healthy environments; (2) *Educational Facilities Financing Center* – approximately \$30 million of donor-restricted funds available to support quality public charter and alternative schools in low-income neighborhoods. Included in the amount is approximately \$26 million related to grants awarded by the U.S. Department of Education to LISC to provide credit enhancement on loans made by financial institutions to stimulate the financing of charter schools; (3) *Specific Project Funds* – approximately \$15 million of donor-restricted funds available to support a multitude of specifically defined projects in the local/regional offices and national programs; and (4) *General operating and programmatic support* – approximately \$38 million of donor-restricted funds that are for use by specific local/regional offices and national programs for both general operating and programmatic support.

(Continued)

**LOCAL INITIATIVES SUPPORT CORPORATION**  
(Parent Only)

Notes to Financial Statements

December 31, 2010  
(with comparative financial information  
as of and for the year ended December 31, 2009)

**(3) Cash, Cash Equivalents, and Investments**

At December 31, 2010 and 2009, the Organization's total portfolio of cash, cash equivalents, and investments consisted of the following

	2010		2009	
	Cost	Fair value	Cost	Fair value
Cash and cash equivalents	\$ 19,775,089	19,775,089	18,418,490	18,418,490
Investments				
Cash held for investment	23,476,585	23,476,585	63,089,114	63,089,114
Corporate bonds and fixed income funds	36,863,978	35,961,029	34,650,759	31,728,271
U S government agencies	42,274,209	42,403,839	10,727,322	10,732,629
Equity securities - domestic	4,689,029	5,048,794	4,047,191	3,972,488
Certificates of deposit	2,250,000	2,250,000	2,550,000	2,550,000
Alternative investments				
Real estate investment trust	991,536	1,507,520	991,536	1,507,520
Hedge funds	16,470,602	17,570,001	17,700,000	18,444,655
Equity common trust fund	4,042,207	5,448,364	2,791,712	4,041,529
	<u>131,058,146</u>	<u>133,666,132</u>	<u>136,547,634</u>	<u>136,066,206</u>
Total cash, cash equivalents, and investments	<u>\$ 150,833,235</u>	<u>153,441,221</u>	<u>154,966,124</u>	<u>154,484,696</u>

The Organization invests in certain alternative investments, through "funds of funds" investments, which employ multiple investment strategies via a variety of investment managers to provide diversification and control risk. These investments create indirect exposure to the Organization through short sales of securities, trading in future and forward contracts, and other derivative products. Derivatives are tools used to maintain asset mix or manage portfolio risk exposure. While these financial instruments may contain varying degrees of risk, the Organization's risk with respect to such transactions is limited to its capital balance in each investment.

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The limitations and restrictions on the Organization's ability to redeem or sell its alternative investments vary by investment. As of December 31, 2010, the following table summarizes the composition of such investments by the various redemption provisions:

Alternative Investments:	Fair Value	Redemption Frequency	Redemption Notice Period
Real estate investment trust (A)	\$ 1,507,520	Lock-up	Not applicable
Multi-strategy hedge funds (B)	3,505,314	Lock-up	90 calendar days
Multi-strategy hedge funds (B)	6,459,480	Quarterly	61 calendar days
Credit-focused hedge funds (C)	7,605,207	Semiannual	60 calendar days
Equity common trust fund (D)	5,448,364	Monthly	2 business days
	<u>\$ 24,525,885</u>		

As of December 31, 2010 and 2009, the Organization has no unfunded commitments on its alternative investments.

Information with respect to the strategies of those investment funds which are reported at estimated fair value based upon net asset value per share (or its equivalent) is as follows (amounts included are as of December 31, 2010):

- (A) *Real estate investments trust* (\$1,507,520) – of which the Organization is a minority shareholder, principal business activities are to invest in affordable multifamily residential mortgage loans, which are subsequently syndicated to institutional investors, and to acquire equity interests in affordable multifamily residential real estate assets.
- (B) *Multi-strategy hedge funds* (\$9,964,794) – includes investments in fund of funds that invest across multiple hedge fund strategies and styles, including equity long/short, event driven, relative value, tactical trading, and multi-strategy hedge funds styles. \$3,505,314 of this class of investments cannot be redeemed until July 1, 2011 and September 1, 2011, respectively, due to restrictions that do not allow redemptions in the first year after acquisition.
- (C) *Credit-focused hedge funds* (\$7,605,207) – comprised of an investment in a hedge fund that seeks to achieve attractive total returns through both capital appreciation and current income. The fund seeks to achieve its investment objective through a portfolio of investments in publicly traded and privately held securities, loans, derivatives and other instruments, primarily in the corporate credit sector of the fixed income and related markets.

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(D) *Equity common trust fund* (\$5,448,364) – comprised of an investment in a passively managed common trust fund that seeks to match the return of the MSCI Europe, Australia and Far East index (the “Index”) The fund employs an index replication approach to construct a portfolio whose returns closely parallel those of the Index This process is accomplished through investing in 21 individual MSCI country funds which, in turn, own the Index securities in market-weighted proportion

**(4) Contributions Receivable**

At December 31, 2010 and 2009, the Organization had contributions receivable with expected receipts as follows:

	<u>2010</u>	<u>2009</u>
Due within one year	\$ 30,776,395	38,126,899
Due in one to five years	6,092,000	10,196,117
	36,868,395	48,323,016
Less discount (0.29% – 5.00%)	(51,997)	(226,539)
Less allowance for uncollectible contributions receivable	(775,000)	(819,000)
Total contributions receivable, net	<u>\$ 36,041,398</u>	<u>47,277,477</u>

At December 31, 2010 and 2009, approximately 28% and 24%, respectively, of the Organization’s contribution receivable was from one foundation

**(5) Government Grants and Contracts**

At December 31, 2010 and 2009, LISC had grant commitments from various government agencies of approximately \$41 million and \$35 million, respectively These grant commitments will be recognized in the accompanying financial statements when it is probable that the conditions surrounding the terms of the grant will be met

**(6) Program Loans and Recoverable Grants to Community Development Corporations**

**(a) Program Loans**

In furtherance of its charitable purposes, LISC makes loans directly to CDCs (and CDC-sponsored entities) and also to its affiliate, NEF, to benefit CDCs and CDC-affiliated projects In general, interest rates on loans to CDCs range from 0% to 8% and repayment terms range from 3 months to 22.6 years Delinquent loans, measured as those loans whose payment is 90 days past due, totaled \$11,818,914 and \$18,578,172, respectively, at December 31, 2010 and 2009 The portion of the allowance dedicated to the delinquent loans totaled \$3,184,340 at December 31, 2010 and

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\$2,908,358 at December 31, 2009 At December 31, 2010, loan principal of \$59,269,434 is due to LISC within one year

Loan activity for the years ended December 31, 2010 and 2009 is summarized as follows

	<b>Loans made directly to CDCs and CDCs- sponsored projects</b>	<b>Loans made to affiliates and NEF- related entities for NEF CDCs projects</b>	<b>2010 total</b>	<b>2009 total</b>
Gross loans receivable, beginning of year	\$ 195,057,650	6,853,759	201,911,409	226,861,362
Loans made	34,043,379	5,842	34,049,221	66,323,714
Repayments	(69,591,147)	(6,306,737)	(75,897,884)	(83,161,889)
Loans transferred to foreclosed assets	(3,530,094)	—	(3,530,094)	(2,405,569)
Loans written off	(2,388,059)	(135,000)	(2,523,059)	(5,706,209)
Gross loans receivable, end of year	<u>153,591,729</u>	<u>417,864</u>	<u>154,009,593</u>	<u>201,911,409</u>
Allowance for uncollectible loans, beginning of year	(14,275,751)	—	(14,275,751)	(13,887,210)
Increase in allowance for uncollectible loans	(888,431)	(135,000)	(1,023,431)	(6,094,750)
Loans written off	<u>2,388,059</u>	<u>135,000</u>	<u>2,523,059</u>	<u>5,706,209</u>
Allowance for uncollectible loans, end of year	<u>(12,776,123)</u>	<u>—</u>	<u>(12,776,123)</u>	<u>(14,275,751)</u>
Loans receivable, net, end of year	<u>\$ 140,815,606</u>	<u>417,864</u>	<u>141,233,470</u>	<u>187,635,658</u>

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**(b) Recoverable Grants**

In furtherance of its charitable purposes, LISC makes recoverable grants directly to CDCs to benefit CDC's projects. Recoverable grant activity for 2010 and 2009 is summarized as follows:

	<u>2010</u>	<u>2009</u>
Gross recoverable grants receivable, beginning of year	\$ 14,301,559	17,029,343
New recoverable grants made	2,949,768	3,786,063
Write-offs	(217,806)	(3,978,294)
Repayments	<u>(2,442,120)</u>	<u>(2,535,553)</u>
Gross recoverable grants receivable, end of year	14,591,401	14,301,559
Allowance for uncollectible recoverable grants, end of year	<u>(6,490,801)</u>	<u>(5,794,179)</u>
Recoverable grants receivable, net, end of year	<u>\$ 8,100,600</u>	<u>8,507,380</u>

**(7) Grants Payable**

In furtherance of its charitable purposes, LISC makes grants to CDCs. The Organization's grant activity for the years ended December 31, 2010 and 2009 is summarized below:

	<u>2010</u>	<u>2009</u>
Grants payable, beginning of year	\$ 20,434,299	23,437,739
New project grants made	39,857,999	36,637,310
Disbursements on commitments	<u>(37,025,900)</u>	<u>(39,640,750)</u>
Grants payable, end of year	<u>\$ 23,266,398</u>	<u>20,434,299</u>

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**(8) Furniture, Equipment, and Leasehold Improvements**

Furniture, equipment, and leasehold improvements consisted of the following at December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Equipment	\$ 144,778	321,926
Furniture	127,492	136,405
Leasehold improvements	<u>4,123,326</u>	<u>4,055,649</u>
Gross fixed assets	4,395,596	4,513,980
Less accumulated depreciation and amortization	<u>(1,827,262)</u>	<u>(1,659,382)</u>
Furniture, equipment, and leasehold improvements, net	<u>\$ 2,568,334</u>	<u>2,854,598</u>

**(9) Loans Payable**

At December 31, 2010 and 2009, loans payable consisted of the following

	<u>Maturities</u>	<u>Interest rates</u>	<u>2010</u>	<u>2009</u>
Financial institutions and insurance companies	2010 – 2021	0.00% – 5.75%	\$ 155,713,456	202,438,248
Foundations	2011 – 2026	0.00% – 4.25%	21,437,810	20,420,035
Public agencies/entities and retirement funds	2010 – 2026	0.00% – 3.00%	8,830,204	9,458,853
Nonprofit and other institutions	2011 – 2025	0.00% – 4.00%	<u>10,405,698</u>	<u>10,579,698</u>
Total			<u>\$ 196,387,168</u>	<u>242,896,834</u>

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**(a) Loans Payable Maturities**

Loans payable are scheduled to be repaid as of December 31, 2010 as follows

2011	\$ 22,306,599
2012	30,817,291
2013	35,171,846
2014	29,753,271
2015	18,827,690
Thereafter	<u>59,510,471</u>
	<u>\$ 196,387,168</u>

At December 31, 2010, LISC had approximately \$78,000,000 of additional undrawn sources of funding with interest rates ranging from 0% to 4.5% fixed rate and floating rate of LIBOR+3.00%, and maturities ranging from 2011 to 2015

**(b) Pledged Assets**

At December 31, 2010 and 2009, loans payable totaling \$13,709,012 and \$15,260,669, respectively, were nonrecourse obligations. In accordance with the terms of the nonrecourse loan agreements, underlying loans receivable are pledged as collateral to the lenders.

**(c) Lines of Credit**

LISC has \$25,000,000 in available bank lines of credit through September 30, 2011. There was no drawdown in 2010. The interest rate ranged from 1.55% to 2.01% in 2010. In 2009, approximately \$18,790,205 was drawn down. The interest rate ranged from 1.04% to 2.6% in 2009. There was no outstanding balance in 2010. At December 31, 2009, \$5,664,668 was outstanding, which was included in loans payable.

**(d) Covenants**

In accordance with the terms of the master loan and grant agreements between LISC and a consortium of lenders/grantors (Living Cities), LISC is required to meet several financial covenants.

Such covenants include (i) indebtedness for borrowed money minus nonrecourse indebtedness cannot exceed 450% of covenant net assets, as defined, for each fiscal quarter ending March 31, June 30, and September 30, and 350% of covenant net assets for each fiscal year ending December 31, (ii) covenant net assets cannot be less than 30% of loans nor less than 15% of assets, and (iii) cash and marketable securities plus 50% of loans receivable due during the current period cannot be less than debt due during the current period. At the end of any year, average total expenses

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cannot exceed average total support and revenue, based on the three years most recently ended (the Annual Covenant)

Certain additional loan covenants of a less restrictive nature than those disclosed above exist as of December 31, 2010

Effective, January 1, 2011, Living Cities has amended its loan agreement to delete the Annual Covenant, and replace it with a covenant requiring LISC to have unrestricted and temporarily restricted cash plus investments as of the end of the fiscal year equal to at least 6 months of total budgeted expenses, as defined, for the subsequent fiscal year

LISC is in compliance with covenants described in (i), (ii), and (iii) above and has received waivers from its lenders with respect to the Annual Covenant as LISC was not in compliance with such covenant at December 31, 2010

**(10) Bonds Payable**

Bonds payable, bearing interest at 5% per annum was repaid in 2010

**(11) Pension and Thrift Plans**

LISC has a Code Section 403(b) defined contribution pension plan covering all eligible employees. Plan contributions are computed based on formulas defined in the plan. Total pension expense for the years ended December 31, 2010 and 2009 was \$1,849,215 and \$1,732,804, respectively.

LISC also maintains a thrift plan under Section 401(k) of the Code covering all eligible employees. Under the plan, employee contributions are partially matched by LISC. Total thrift plan expense for the years ended December 31, 2010 and 2009 was \$313,239 and \$306,206, respectively.

**(12) Financial Instruments with Off-Balance-Sheet Risk and Fair Values**

**(a) Off-Balance-Sheet Risk**

LISC is a party to certain financial instruments with off-balance-sheet risk to meet the financing needs of community development organizations across the United States. These financial instruments and arrangements include loans receivable sold with recourse, financial guarantees, and revolving loans. These transactions and arrangements involve elements of credit risk. LISC uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

LISC's exposure to credit loss in the event of nonperformance by CDCs whose loans have been guaranteed or sold with recourse is equal to the contractual amounts of the instruments.

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Revolving loans are agreements to lend as long as there is no violation of any condition established in the contract

The following represents the composition of financial instruments with off-balance-sheet risk

	<u>2010 contract amount</u>	<u>2009 contract amount</u>
Financial instruments whose contract amounts represent credit risk		
Financial guarantees	\$ 7,494,741	2,213,701
Loan commitments outstanding	35,639,927	39,036,315
Loans receivable sold with recourse	43,126	79,535
Total	<u>\$ 43,177,794</u>	<u>41,329,551</u>

LISC generally makes loans over \$50,000 on a secured basis. The collateral for such loans generally consists of mortgages, security agreements, assignment of contract receivables, and guarantees. As of December 31, 2010, financial guarantees of \$7,494,741 had a fair value of \$498,663. In addition, LISC has commitments to extend guarantees of up to \$2 million once certain conditions have been satisfied.

At December 31, 2010 and 2009, LISC had an interest rate swap with a notional value of \$1,000,000, maturing June 1, 2014. At December 31, 2010 and 2009, LISC recognized an unrealized (loss) gain of \$ (20,675) and \$52,508, respectively, related to the fair value of the interest rate swap. At December 31, 2010 and 2009, the fair value of the interest rate swap was \$(132,762) and \$(112,087), respectively.

In October 2010, LISC entered into an interest rate swap effective October 15, 2010 and expiring October 15, 2012, with a notional value of \$19,800,000 for the purpose of capping the potential interest rate exposure at 0.66% on a portion of the variable rate loan payable in the amount of \$19,800,000. As of December 31, 2010, LISC has drawn down \$19,800,000 from the loan. At December 31, 2010, LISC recognized an unrealized loss of \$(5,852), related to the fair value of the interest rate swap. At December 31, 2010, the fair value of the interest rate swap was \$(5,852).

As of December 31, 2010, three interest rate swaps with notional values totaling \$12,600,000 expired with a minimal financial statement impact.

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**(b) Fair Values**

The following methods and assumptions were used by LISC in estimating its fair value disclosure for financial instruments for cash, cash equivalents, loans to CDCs, contributions receivable, accounts payable and accrued expenses, and loans payable, the respective carrying amounts reported in the statement of financial position equal or approximate their fair value based on their short term nature. For a discussion of valuations of investments, see note 1(g).

The following tables present the Organization's fair value hierarchy for those assets and liabilities measured at fair value on an annual basis as of December 31, 2010 and 2009. At December 31, 2010 and 2009, Level 1 assets comprised approximately 45% and 49%, respectively, of the Organization's total assets and liabilities held at fair value.

	Total December 31, 2010	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	\$ 19,775,089	19,775,089	—	—
Investments				
Cash held for investment	23,476,585	23,476,585	—	—
Corporate bonds and fixed income funds	35,961,029	31,668,014	4,108,279	184,736
U S government agencies	42,403,839	25,236,326	17,167,513	—
Equity securities - domestic	5,048,794	5,048,794	—	—
Certificates of deposit	2,250,000	—	2,250,000	—
Alternative investments				
Real estate investment trust	1,507,520	—	—	1,507,520
Hedge funds	17,570,001	—	14,064,687	3,505,314
Equity common trust funds	5,448,364	—	5,448,364	—
Total investments	\$ 133,666,132	85,429,719	43,038,843	5,197,570
Interest rate swaps	\$ (138,614)	—	(138,614)	—
Loan guarantee	498,663	—	498,663	—

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	<u>Total December 31, 2009</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Cash and cash equivalents	\$ 18,418,490	18,418,490	—	—
Investments				
Cash held for investment	63,089,113	63,089,113	—	—
Corporate bonds and fixed income funds	31,728,271	—	31,492,969	235,302
U S government agencies	10,732,629	—	10,732,629	—
Equity securities - domestic	3,972,488	3,972,488	—	—
Certificates of deposit	2,550,000	—	2,550,000	—
Alternative investments				
Real estate investment trust	1,507,520	—	—	1,507,520
Hedge funds	18,444,655	—	18,444,655	—
Corporation	4,041,529	—	4,041,529	—
Total investments	<u>\$ 136,066,205</u>	<u>67,061,601</u>	<u>67,261,782</u>	<u>1,742,822</u>
Interest rate cap	\$ 29	—	29	—
Interest rate swap	(162,859)	—	(162,859)	—
Loan guarantee	330,271	—	330,271	—

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The following tables present a reconciliation for all Level 3 assets measured at fair value for the years ended December 31, 2010 and 2009

	<b>Corporate bonds and fixed income</b>	<b>Real estate investment trust</b>	<b>Hedge funds</b>	<b>Total</b>
Beginning balance, January 1, 2010	\$ 235,302	1,507,520	—	1,742,822
Total unrealized (losses) gains included in changes in net assets, net	(34,975)	—	255,314	220,339
Redemptions	(15,591)	—	—	(15,591)
Purchases	—	—	3,250,000	3,250,000
Ending balance, December 31, 2010	<u>\$ 184,736</u>	<u>1,507,520</u>	<u>3,505,314</u>	<u>5,197,570</u>

	<b>Corporate bonds and fixed income</b>	<b>Real estate investment trust</b>	<b>Hedge funds</b>	<b>Total</b>
Beginning balance, January 1, 2009	\$ 732,375	1,345,120	7,155,974	9,233,469
Transfer from Level 3 to Level 2	—	—	(7,155,974)	(7,155,974)
Total net unrealized gains included in changes in net assets	—	162,400	—	162,400
Sales	(497,073)	—	—	(497,073)
Ending balance, December 31, 2009	<u>\$ 235,302</u>	<u>1,507,520</u>	<u>—</u>	<u>1,742,822</u>

Investment-related income for Level 3 investments for the years ended December 31, 2010 and 2009 consists of the following

	<b>2010</b>	<b>2009</b>
Net realized and unrealized (loss) gain on investments	\$ (34,975)	162,400
Interest and dividends	67,200	67,200
Total investment income	<u>\$ 32,225</u>	<u>229,600</u>

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**(13) Concentration of Credit Risk**

LISC makes grants and loans to CDCs throughout the United States that are primarily engaged in residential and commercial real estate development. Although LISC's portfolio is diversified as to location of borrower, the ability of CDCs to repay their obligations on a timely basis may be affected by the continuing downturn in the economy, a cutback in government subsidies, or the availability of other permanent financing sources, which may limit the capital available to complete projects.

**(14) Commitments and Contingencies**

**(a) Litigation**

In the ordinary course of its activities, LISC is a party to several legal proceedings. In the opinion of management and legal counsel, the resolution of such matters will not have a material impact on LISC's operations or financial condition.

**(b) Lease Commitments**

Minimum rental commitments under noncancelable operating real estate leases in effect at December 31, 2010 and expiring at various dates through August 19, 2019 totaled \$26,292,757. These amounts exclude future escalation for real estate taxes and building operating expenses. Minimum future rental commitments as of December 31, 2010 are as follows:

2011	\$ 3,883,729
2012	3,494,492
2013	3,137,932
2014	2,815,730
2015	2,733,507
Thereafter	<u>10,227,367</u>
Total	<u>\$ 26,292,757</u>

Rental expense, inclusive of real estate taxes and operating costs for the years ended December 31, 2010 and 2009 totaled \$3,472,546 and \$3,409,849, respectively.

In 2009, LISC entered into a lease agreement for office space expiring August 19, 2019. In connection with the lease agreement, LISC received certain periods of free rent and other rent concessions. LISC records the lease expense on a straight-line basis. At December 31, 2010 and 2009, accounts payable and accrued expenses include \$3,546,864 and \$3,837,782, respectively, of deferred rent obligations related to the lease. In connection with the lease agreement, LISC issued a letter of credit in the amount \$750,000 on September 30, 2010 with an expiration date of November

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30, 2011 The letter of credit will be renewed annually A certificate of deposit in the amount of \$750,000 is being used as collateral for the line of credit

**(15) Related-Party Transactions**

**(a) Related-Party Income**

LISC provides various services to its affiliates LISC earns a service fee from NEF for providing project-related services, which include project selection assistance, assistance to project partnerships, and closing and monitoring of project investments LISC also earns fee income from NEF for services provided by LISC related mainly to NEF's New York operations LISC also provides office space to NEF NEF is charged a pro rata share of the monthly lease costs, inclusive of operation costs and real estate tax escalations In addition, LISC earns a management fee for technical and management assistance provided to TRI, LIMAC, and LLLF Furthermore, certain shared expenses are reimbursed to LISC pursuant to an allocation agreement between parties

The following represents income from related parties at December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
NEF service fee	\$ 1,775,000	1,230,000
NEF fee income	577,273	1,205,472
NEF consulting fee income	50,000	50,000
NEF interest income (included in interest income on loans to CDCs)	16,758	372,353
NEF line of credit fee	125,000	125,000
NEF grant (included in contributions)	7,830,000	805,000
NMSC grant (included in contributions)	3,500,000	3,500,000
TRI management fee	30,000	30,000
Columbia Pointe, LLC interest income (included in interest income on loans to CDCs)	—	30,535
LISC Cook County management fee	32,340	—
LLLF management fee	9,032	12,977
LLLF interest income (included in interest income on loans to CDCs)	5,966	22,306
LIMAC grant (included in contributions)	74,980	—
LIMAC management fee	—	31
Total	<u>\$ 14,026,349</u>	<u>7,383,674</u>

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**(b) Due from Affiliates**

Due from affiliates consisted of the following at December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
NEF	\$ 1,664,472	1,629,106
LIMAC	4,096	2,986
NMSC	9,606	8,554
TRI	7,645	15,025
LLLF, net of reserve of \$128,634	151,318	150,647
Columbia Pointe, LLC	1,078	578
CDR	—	138,854
LISC Cook County, LLC	32,405	—
Neighborhood Properties, LLC	3,514,034	2,617,574
Total	<u>\$ 5,384,654</u>	<u>4,563,324</u>

At December 31, 2010 and 2009, due from NEF comprised \$1,455,000 and \$1,225,000 in service fee receivable, \$112,273 and 290,781 in fee income receivable, and \$97,199 and \$113,325 in shared expenses, respectively

At December 31, 2010 and 2009, due from Neighborhood Properties, LLC consisted of \$3,514,034 and \$2,617,574, respectively, related to foreclosed CDC loans transferred to Neighborhood Properties, LLC After foreclosure has been completed, Neighborhood Properties, LLC hold such properties until disposal

**(c) Other Related-Party Activities**

LISC provides NEF and NEF-related entities a \$35,000,000 revolving line of credit to borrow monies to provide short-term secured loans to facilitate the acquisitions of project partnership investments On September 23, 2010, the revolving line of credit was reduced to \$15,000,000 The maturity date is May 1, 2012 At December 31, 2010 and 2009, there was \$0 and \$5,664,668 outstanding on the revolving line of credit, respectively The loans are secured by assignments of investor notes and/or interests in project investments LISC also provides a \$5 million (increased from \$2 million in August 2009) working capital line of credit On September 23, 2010, the working capital line of credit was extended to December 31, 2011 There was no outstanding balance at December 31, 2009 and 2010 In 2005, LISC also provided to NEF a \$2 million loan On September 23, 2009, the loan was amended to extend the maturity date to December 30, 2009 with a principal amount due of \$1,000,000 Interest payments are made on a monthly basis As of December 31, 2009, the loan was repaid

(Continued)

**LOCAL INITIATIVES SUPPORT CORPORATION**  
(Parent Only)

Notes to Financial Statements

December 31, 2010  
(with comparative financial information  
as of and for the year ended December 31, 2009)

In November 2007, LISC provided LLLF a \$1 million revolving bridge loan, maturing on December 1, 2012. The proceeds of the loan are to be used only to bridge advances of loans secured by LLLF to fund acquisition and predevelopment loans to developers in the Gulf Opportunity Zone in the State of Louisiana for the rehabilitation and development of affordable and mixed-income housing. At December 31, 2010 and 2009, \$0 and \$633,602, respectively, was outstanding for this loan and is included in Loans to CDCs, affiliates, and NEF-related entities for NEF CDCs projects.

In 2008, LISC has also provided LLLF a \$750,000, 6.75% interest-bearing revolving facility to fund project loans. The full amount of unpaid principal and all accrued and unpaid interest is due on the earlier to occur of (i) repayment of the final project loan or (ii) December 1, 2012. As of December 31, 2010 and 2009, \$86,364 and \$88,989, respectively, was payable to LISC under this facility.

In May 2006, LISC provided Columbia Pointe, LLC, a \$500,000 loan for the acquisition of a 25% interest in Woodlawn Park, LLC, an Illinois limited liability company, which is developing affordable housing in Chicago. The maturity date is June 1, 2011. As of December 31, 2010 and 2009, there was \$331,500 outstanding for this loan.

LISC provided a \$7,500,000, 0% recoverable grant facility to the LLLF to fund project loans. LLLF has to repay LISC all LISC recoverable grant funds disbursed to LLLF within 60 days from the maturity date of the facility (November 20, 2012). In the event that LISC is satisfied, however, that LLLF has made best efforts to seek recovery of a project loan, and if LISC and LLLF shall have mutually agreed in writing that a completed project cannot generate sufficient revenue to repay any portion of such project loan funded with the proceeds of the recoverable grant, repayment of the portion of the recoverable grant that is unable to be repaid may not be required. As of December 31, 2010 and 2009, \$918,358 was outstanding for this recoverable grant and is included in recoverable grants to CDC-sponsored projects. As of December 31, 2010, LLLF had not received any repayments on any project loans provided from the underlying recoverable grant.

In 2010, LISC provided financial guarantees of certain obligations of LLLF. As of December 31, 2010, the guarantees totaled \$701,263.

**(16) Subsequent Events**

In connection with the preparation of the financial statements and in accordance with ASC Subtopic 855-10, *Subsequent Events*, the Organization evaluated subsequent events after the balance sheet date of December 31, 2010 through September 30, 2011, which was the date the financial statements were available to be issued and determined that there were no matters that are required to be disclosed.

**LOCAL INITIATIVES SUPPORT CORPORATION**  
(Parent Only)

Schedule of Expenditures of Federal Awards

Year ended December 31, 2010

<u>Grantor/program title</u>	<u>CFDA number</u>	<u>Contract number</u>	<u>Federal expenditures</u>
U S Department of Housing and Urban Development (HUD)			
Community Development Block Grants/Entitlement Grants			
Direct	14 218	Various	\$ 1,023,748
Pass through			
City of Ann Arbor	14 218	N/A	12,344
City of Chicago - DFSS	14 218	19244 - 71226	193,956
City of Chicago - Faith	14 218	15798 - 1	802,688
City of Hartford	14 218	101600	34,379
City of Hartford	14 218	091600	42,805
City of Indianapolis	14 218	P010300757	26,052
City of Indianapolis	14 218	P018300504	(1,600)
City of Indianapolis	14 218	P019300609	32,967
City of Indianapolis	14 218	P010300569	87,509
City of Indianapolis	14 218	P010300571	6,282
City of Indianapolis	14 218	P010300570	35,745
City of Kalamazoo	14 218	N/A	2,137
City of Kalamazoo	14 218	N/A	29,907
City of Newark	14 218	N/A	36,994
City of Newark	14 218	N/A	4,805
City of Philadelphia	14 218	920540	33,008
City of Philadelphia	14 218	1020507	19,840
City of Philadelphia	14 218	1020368	62,096
City of Phoenix	14 218	121455	24,523
City of Richmond	14 218	4617-2159-8523	99,090
City of San Diego	14 218	N/A	166,687
City of San Diego	14 218	N/A	(20)
State of Louisiana	14 218	107 - 700941	631,584
			<u>3,407,526</u>
Section 4 Capacity Building for Community Development and Affordable Housing Program			
Direct	14 252	Various	11,742,307
Community Development Financial Institutions Program			
Direct	21 020	Various	477,440
HOME Investment Partnerships Program			
Direct	14 239	Various	730,020
Pass through			
Ohio State Capital	14 239	Various	7,068
			<u>737,088</u>
National Stabilization Program			
Direct - American Recovery and Reinvestment Act (ARRA)	14 256	N/A	1,385,284
Pass through			
City of Jacksonville - ARRA	14 256	HNHS1A3HPAD/04938	22,579
			<u>1,407,863</u>
Total HUD			<u>17,772,224</u>
Corporation for National and Community Service (CNCS)			
AmeriCorps - Direct	94 006	Various	1,408,582
AmeriCorps - ARRA	94 006	09-NDH-NY-002	471,842
AmeriCorps - Direct	94 019	10-SIH-NY-001	44,070
Total CNCS			<u>1,924,494</u>
Department of Family and Support Services			
Pass through			
City of Chicago - Workforce Initiative Act (WIA) Stimulus			
Summer Youth Employment - ARRA	17 259	19817 - 74174	<u>(3,690)</u>

(Continued)

**LOCAL INITIATIVES SUPPORT CORPORATION**  
(Parent Only)

Schedule of Expenditures of Federal Awards

Year ended December 31, 2010

<u>Grantor/program title</u>	<u>CFDA number</u>	<u>Contract number</u>	<u>Federal expenditures</u>
U S Department of Justice Executive Office for Weed and Seed Community Security Initiative – Direct	16 595	Various	\$ <u>829,289</u>
U S Department of Health and Human Services Direct			
Child Care & Development	93 575	Various	316,139
Pass through			
St Louis Board of Commission	93 558	20842	2,263
Neighborhood Centers, Inc	93 667	2601	<u>84,958</u>
			<u>403,360</u>
U S Department of Commerce Pass through			
Chicago Community Foundation	11 557	17-43-810507	2,663,438
U S Department of Agriculture (USDA) Rural Community Development Initiative USDA/Rural Housing Services – Direct	10 761	Various	<u>39,580</u>
U S Department of Interior National Park Service – Direct	15 919	H4507080016	<u>50,000</u>
U S Small Business Administration Microenterprises Development Branch – Direct	59 050	SBAHQ – 09 – Y – 0146	<u>46,786</u>
U S Department of Education (DOE) Credit Enhancement for Charter School Facilities (note 3)	84 354	N/A	<u>29,638,751</u>
Total expenditures of federal awards			\$ <u><u>53,364,232</u></u>

See accompanying notes to schedule of expenditures of federal awards

**LOCAL INITIATIVES SUPPORT CORPORATION**  
(Parent Only)

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2010

**(1) Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Local Initiatives Support Corporation (Parent Only) (the Organization) and is presented on the accrual basis. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the Organization's 2010 basic financial statements.

**(2) Subrecipients**

Of the federal expenditures presented in the schedule, the Organization provided federal awards to subrecipients as follows:

Program title	CFDA number	Amount provided to subrecipients
Community Development Block Grants/Entitlement Grants	14 218	\$ 1,757,920
Community Development Block Grants/Section IV	14 252	7,719,372
Community Development Financial Institutions Program	21 020	183,000
American Recovery & Investment Act	11 557	2,280,593
Groundworks Buffalo Development	15 919	50,000
Family Support Services/Summer Youth Program	17 259	(3,690)
Community Development/Technical Assistance	14 239	49,377
Community Security Initiative	16 595	248,953
US Small Business Administration	59 050	20,000
		<u>\$ 12,305,525</u>

**(3) Credit Enhancement for Charter School Facilities**

The U.S. Department of Education has awarded total grants of \$26,462,977 to the Organization to credit enhance the loans made by financial institutions to stimulate the financing of charter schools. The grant funds are to remain invested in separate grant reserve accounts in accordance with the requirements of the grant. Such financial assistance is considered federal awards expended based on the amounts in the reserve accounts at the beginning of the grantee fiscal year, plus any funds drawn down plus investment earnings received in the grantee's fiscal year to add to the reserve account, less any payments resulting from the credit enhancements provided. There have been no withdrawals from the reserve account for losses related to credit enhancements provided. The reserve account balance as of December 31, 2010 is \$29,638,751, consisting of the remaining grant balance of \$26,417,482 and accumulated net investment earnings of \$3,221,269.



**LOCAL INITIATIVES SUPPORT CORPORATION**  
(Parent Only)

Schedule of Indirect Cost Rate

Year ended December 31, 2010

<b>Indirect costs</b>	
Salaries and fringe benefits	\$ 8,591,658
Staff travel and related expenses	408,063
Consulting fees	455,671
Depreciation and amortization	424,454
Rent and utilities	1,375,169
Computer expense	330,265
Office supplies	75,380
Postage and delivery	46,528
Accounting and auditing fees	401,488
Conference and meeting	177,791
Memberships and subscriptions	43,482
Telephone	226,826
Insurance	73,309
Equipment rental	76,327
Printing, annual report, and publications	46,031
Contracted overhead	59,665
Repairs and renovations	14,172
Legal fees	199,691
Payroll services	139,790
Office cleaning and maintenance	45,065
Taxes	1,640
Filing/registration fees	2,512
Miscellaneous	(1,524)
<b>Total indirect costs (A)</b>	<b>\$ 13,213,453</b>
<b>Direct costs</b>	
Project development and other program activities	\$ 41,929,050
Project grants	20,278,833
Fund-raising	800,629
Other activity expenses <sup>(1)</sup>	575,533
<b>Total direct costs (B)</b>	<b>\$ 63,584,045</b>
<b>Indirect cost rate = (A)/(B)</b>	<b>20.78%</b>

<sup>(1)</sup> Other activity expenses represent internal staff time and other expenses devoted to lobbying activities

See accompanying notes to schedule of indirect cost rate

**LOCAL INITIATIVES SUPPORT CORPORATION**  
(Parent Only)

Notes to Schedule of Indirect Cost Rate

Year ended December 31, 2010

**(1) Accounting Policies**

***Basis of Calculation***

In preparing the accompanying schedule of indirect cost rate and the reconciliation of the statement of activities to the schedule of indirect cost rate (note 2), Local Initiatives Support Corporation (Parent Only) (the Organization) utilized U S Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations*

***Methodology Used***

Each of the Organization's major functions benefit from its indirect costs to the same approximate degree. As a result, the Organization has elected to use the simplified-allocation method to calculate its indirect cost rate. Utilizing its audited Parent Only financial statements for the year ended December 31, 2010, the Organization separated its costs into either allowable direct or indirect categories, including the costs associated with certain activities not allowable as charges to federal awards (e g , the cost of fund-raising)

Direct costs are those that can be identified specifically with a particular final cost objective, e g , a particular award, project, or other direct activity of the Organization. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular cost objective.

The indirect cost rate is the ratio of the total indirect costs (numerator) to the direct cost base (denominator).

(Continued)

**LOCAL INITIATIVES SUPPORT CORPORATION**  
(Parent Only)

Notes to Schedule of Indirect Cost Rate  
Year ended December 31, 2010

**(2) Reconciliation**

The following is a reconciliation of the statement of activities to the schedule of indirect cost rate for the year ended December 31, 2010

	Total expenses per audited financial statements	Unallowable and excludable expenses	Direct and indirect cost pool	Indirect cost pool (Administration)	Indirect cost pool (Facility)	Direct cost pool
Project development and other program activities	\$ 38,431,863	(124,738)	38,307,125	(3,621,925)	—	41,929,030
Project grants	39,857,999	(19,579,166)	20,278,833	—	—	20,278,833
Interest on loans and bonds payable	6,925,543	(6,925,543)	—	—	—	—
Increase in allowance for uncollectible loans to CDCs	1,023,431	(1,023,431)	—	—	—	—
Provision for uncollectible recoverable grants to CDCs	914,428	(914,428)	—	—	—	—
Management and general	12,702,828	(783,749)	11,919,079	10,919,092	424,454	575,533
Fund-raising	6,294,554	(2,093)	6,292,461	5,491,832	—	800,629
Total expenses	\$ 106,150,646	(29,353,148)	76,797,498	12,788,999	424,454	63,584,045

Note The adjustments above relating to the indirect cost pool administration and facility to arrive at the direct cost pool were made based on instructions from the funding agency



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II-1

**Independent Auditors' Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

The Board of Directors  
Local Initiatives Support Corporation

We have audited the financial statements of Local Initiatives Support Corporation (Parent Only) (the Organization) as of and for the year ended December 31, 2010, and have issued our report thereon dated September 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Under the date of September 30, 2011, we have reported on the consolidated financial statements of Local Initiatives Support Corporation and affiliates as of and for the year ended December 31, 2010, and rendered our opinion thereon qualified for matters relating to the consolidation of limited partnerships and similar interests in accordance with Emerging Issues Task Force Issue No. 04-05, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the audit committee of the Organization in a separate letter dated March 16, 2011.

This report is intended solely for the information and use of the board of directors and management of the Organization, and federal awarding agencies and pass-through entities, which provided funding to the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 30, 2011



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345 Park Avenue  
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II-3

**Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

The Board of Directors  
Local Initiatives Support Corporation

**Compliance**

We have audited the compliance of Local Initiatives Support Corporation (Parent Only) (the Organization) with the types of compliance requirements described in the U S Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a material and direct effect on each of its major federal programs for the year ended December 31, 2010. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Local Initiatives Support Corporation (Parent Only) complied, in all material respects, with the compliance requirements referred to above that could have a material and direct effect on each of its major federal programs for the year ended December 31, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2010-1.

### **Internal Control Over Compliance**

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the board of directors and management of the Organization, and federal awarding agencies and pass-through entities, which provided funding to the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

September 30, 2011

**LOCAL INITIATIVES SUPPORT CORPORATION**  
(Parent Only)

Schedule of Findings and Questioned Costs

Year ended December 31, 2010

**(1) Summary of Auditors' Results**

- (a) Type of report issued on the financial statements Unqualified opinion
- (b) Significant deficiencies in internal control disclosed by the audit of the financial statements None reported Material weaknesses No
- (c) Noncompliance that is material to the financial statements No
- (d) Significant deficiencies in internal control over major federal programs None reported Material weaknesses No
- (e) Type of report issued on compliance for major programs Unqualified opinion
- (f) Audit findings that are required to be reported under Section 510(a) of OMB Circular A-133 Yes
- (g) Major programs
  - U S Department of Housing and Urban Development, HOME Investment Partnerships Program (CFDA No 14 239)
  - National Stabilization Program (CFDA No 14 256)– ARRA
  - Corporation for National and Community Service, AmeriCorps (CFDA No 94 006 and 94 019), includes ARRA
  - U S Department of Commerce, Chicago Community Foundation (CFDA No 11 557)
  - Department of Education, Credit Enhancement for Charter School Facilities (CFDA No 84 354)
- (h) Dollar threshold used to distinguish between Type A and Type B programs \$711,764
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133 Yes

**(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards***

None

**(3) Findings and Questioned Costs Relating to Federal Awards**

***Finding No. 2010-1: Failure to File Enrollment Forms Timely Federal Program***

AmeriCorps (CFDA No 94 006)



**LOCAL INITIATIVES SUPPORT CORPORATION**  
(Parent Only)

Schedule of Findings and Questioned Costs

Year ended December 31, 2010

**Criteria**

In accordance with the grant agreement, the Organization is required to submit an enrollment form for each member to the Corporation for National and Community Service no later than 30 days after a member enrolls in the program

**Condition, Context, and Effect**

We selected a sample of 40 members out of a total population of 409 members. Of the 40 members selected, 17 instances were noted in which the Enrollment Form was submitted to the Corporation for National Community Service, however they were not submitted within 30 days.

**Questioned Costs**

Because the forms were ultimately submitted to the Corporation for National and Community Service, we do not believe there are any questioned costs.

**Cause**

The Organization did submit the forms in a timely manner. However, in February 2010, the Corporation for National and Community Service implemented a change in the on-line system that required members in the system to be assigned to a specific location. During the process, the system reset every member's enrollment date to February 2010, regardless of when the member enrolled in the program. Therefore, while the members were initially enrolled during the proper time frame, at a later time when the member's information was reviewed it would appear they were enrolled at the date of the system migration.

**Recommendation**

The Organization should implement procedures to document that the Enrollment Forms are submitted to the Corporation for National and Community Service within the required time frame.

**View of Responsible Official**

In February 2010, CNCS requested that all programs assign members to a placement site. At that point there was no indication that enrollment reports generated by the CNCS system to document compliance would generate new activation dates. For members who had enrollment and activation dates in 2009, once they were assigned to placement sites in February 2010, the new system revised their activation dates to February 2010, leaving no audit trail of the original activation date. The CNCS enrollment report printed during the audit reflected the enrollment date of 2009, but an activation date of 2010, which led to the finding. LISC did not print the CNCS enrollment report in 2009 at the time of the members' enrollment & activation.

**LOCAL INITIATIVES SUPPORT CORPORATION**  
(Parent Only)

Schedule of Findings and Questioned Costs

Year ended December 31, 2010

In March 2011, to provide evidence of compliance for the 2011 audit, the department printed the CNCS enrollment report prior to transferring members to placement sites. This report documents the activation date of members prior to the program transferring members into placement sites for the 2010-2011 service year. In March 2011 we also implemented a process to print the enrollment page screen upon completion for all members. In addition, the program will assign placement sites at the start of the members' service term at the time of enrollment. This process was implemented in May 2011.